

EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL SECURITY COUNCIL
WASHINGTON

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March 3, 1954

MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL

SUBJECT: United States and Free World Controls Over
Transactions with Communist China

REFERENCES: A. NSC Action Nos. 952-b, 962-b and 973
B. NSC 152/3
C. NSC 166/1
D. Memo for NSC from Acting Executive Secretary,
subject, "Reappraisal of the Military Effect
of a Relaxation of Controls on Trade with
the Soviet Bloc in Strategic Materials from
Free World Sources", dated January 22, 1954

The enclosed report recommending amendments in NSC 152/3 relating to United States and Free World Controls over transactions with Communist China is transmitted herewith for consideration by the National Security Council at its meeting on March 11, 1954. Attention is invited to the differences of view with respect to paragraphs 4, 5 and 7 of the enclosure.

The enclosed report was prepared pursuant to NSC Action No. 952-b by the NSC Planning Board, including representatives of the Department of Commerce, on the basis of a draft prepared by representatives of the Economic Defense Advisory Committee and the Advisory Committee on Export Policy. An NSC staff study is enclosed for Council information.

Also enclosed for Council information as Annex C to the report is a progress report by EDAC and ACEP on their revision of the list of strategic items in accordance with the provisions of NSC 152/3.

NSC Declassification/Release Instructions On File

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It is recommended that, if the Council adopts the recommended amendments to NSC 152/3 contained in pages 6-8 of the enclosure, they be submitted to the President with the recommendation that he approve them and direct their implementation by all appropriate executive departments and agencies of the U. S. Government.

JAMES S. LAY, Jr.
Executive Secretary

cc: The Secretary of the Treasury
The Secretary of Commerce
The Director, Bureau of the Budget
The Chairman, Joint Chiefs of Staff
The Director of Central Intelligence

SECRET

UNITED STATES AND FREE WORLD CONTROLS
OVER TRANSACTIONS WITH COMMUNIST CHINA

Table of Contents

	<u>Page</u>
<u>The Problem</u>	1
<u>Issues</u>	1
<u>Elements of the Problem</u>	2
<u>General Considerations</u>	3
<u>Recommendations</u>	6
<u>Staff Study</u>	9
<u>Background</u>	9
Free World Controls and Attitudes.....	9
Communist China Trade Relationships.....	13
Table -- Communist China's Foreign Trade....	14
Possibilities for Expansion of Chinese Com- munist Trade.....	15
Chinese Communist State Control Over Foreign Trade.....	15
<u>Possible Courses of Action</u>	16
General Objectives of U. S. Policy Toward Communist China.....	17
<u>Alternative Courses of Action</u>	19
Annex A -- Understanding Between Japan and the United States Concerning the Control of Exports to Communist China.....	23
Annex B -- United Nations General Assembly Resolution.	24
Annex C -- Progress Report on Revision by EDAC/ACEP of the List of Strategic Items.....	26

SECRET

UNITED STATES AND FREE WORLD CONTROLS
OVER TRANSACTIONS WITH COMMUNIST CHINA

THE PROBLEM

1. The problem is to review current policy in NSC 152/3 with respect to U. S. controls on transactions with Communist China,* in the light of the discussion in the Council in conjunction with the adoption of NSC 166/1. More specifically, in this context the problem is:

To what extent and with what degree of intensity should the United States apply, and seek to have other countries apply, controls on trade with Communist China in the absence of further Chinese Communist aggression and during the period prior to achieving settlements satisfactory to the United States in the areas around Communist China.

ISSUES

2. The principal issues in consideration of this problem are:

- a. Should the United States depart from its current embargo on transactions with Communist China and, if so, what should be the timing and degree of such modifications?
- b. Should the United States agree to relaxations from the levels of controls on trade with Communist China

* Unless otherwise indicated, the phrase Communist China refers to Communist China and North Korea.

SECRET

SECRET

presently maintained by other free world countries:

- (1) under bilateral agreement with the United States,
- (2) under multilateral agreement in the "Paris Group",* or
- (3) under multilateral arrangements pursuant to United Nations Resolution,

and, if so, what should be the timing and degree of such relaxations?

ELEMENTS OF THE PROBLEM

3. The period of time to which the problem statement is addressed is an indeterminate one. It is likely to be long. A "satisfactory settlement" of our issues with Communist China probably will require a political conference. Considering the difficulties and delays which may be anticipated in convening a political conference, and thereafter the problems and delays which may beset such a conference, it must be considered probable that many months--and perhaps years--will pass before the truce in Korea is technically converted into a peace and before a settlement satisfactory to the United States can be achieved relating to Korea alone. At the same time, it must be recognized that this interim period could be quite short. The Chinese Communists hold it within their power to make possible at any time the achievement of satisfactory settlements

* See paragraph 4 of the attached staff study.

SECRET

within a matter of weeks.

GENERAL CONSIDERATIONS

Proposed by State, Defense and FOA

4. In terms of direct economic impact, there are no compelling arguments either for or against a substantive relaxation of U. S. export, import and financial controls. However, these controls are essential at this time for their international political impact, which helps maintain indirectly the degree of free world economic pressure represented by CHINCOM and UN controls.

5. Relaxation of U. S. controls to the CHINCOM level would fail to serve the two primary policy objectives toward which our economic defense program in relation to Communist China

Proposed by Commerce

4. On balance--though recognizing the problem of public and Congressional reaction, and the fact that some risk is involved in terms of the psychological reaction by Communist China and other Asians--the soundest course of action would be the lifting of the embargo to the limited extent involved in placing U. S. controls at the internationally agreed CHINCOM level. This limited change in U. S. controls would be consistent with the objective of avoiding a U. S. contribution to Chinese Communist industrialization. It would at the same time remove a presently unnecessary discrimination against American business and support

SECRET

Proposed by State,
Defense and FOA (Cont'd)

should now be aimed.

a. Such relaxation of U. S. controls would not produce, but rather would diminish, the pressures needed to achieve our immediate negotiating goals, and would make such negotiations more, rather than less, difficult.

b. Because CHINCOM controls cover, in the main, the materials and capital goods needed for large scale industrial development, it might seem on superficial examination that relaxation of U. S. controls to the CHINCOM level would be consistent with the objective of hampering the industrialization of Communist China. This consistency is not real,

Proposed by Commerce (Cont'd)

the thesis that government controls are being applied only where a vital and constructive purpose is served by them. Such a limited relaxation rather than adversely affecting the course of negotiations when negotiations are desirable might, on the contrary, be used effectively as a concrete demonstration of American good faith and thereby set a better frame-work for negotiation.

5. It is argued that a modification of the U. S. embargo will cause a deterioration of controls of free world nations. There is ample evidence to suggest that regardless of U. S. policy there will be a major drive by other free world nations for increased and more extensive trade with China, as well as with other Communist countries. U. S. action to place its controls at the

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SECRET

Proposed by State,
Defense and FOA (Cont'd)

however. We must now anticipate that other free world countries will be exerting pressures toward further reduction in existing controls. In such a climate U. S. relaxation to the CHINCOM level would inevitably stimulate a deterioration in the CHINCOM and UN control levels below the level necessary to impede Communist China's industrial development, and possibly below that essential to inhibit the growth of more direct war potential.

Therefore, substantive relaxation of U. S. controls, prior to a satisfactory settlement in the areas around Communist China, is inappropriate under the circumstances now prevailing.

Proposed by Commerce (Cont'd)

internationally agreed level may provide a better atmosphere for carrying the U. S. point of view. It would point up the flexibility of U. S. policy and the willingness to act on a concerted multilateral basis; it would be conducive to furthering the unity of the free world. As such it would implement the general line of our economic defense policy established by NSC 152/3. If, on the other hand, we are unable or elect not to stop the anticipated drive of other nations for more trade with Communist China, the continued imposition of maximum controls on American business becomes increasingly irrational.

SECRET

SECRET

RECOMMENDATIONS

6. The "General Objectives" set forth in NSC 152/3 should be amended by deleting paragraph 20 thereof and substituting a new paragraph 20 as follows:

"20. With respect to Communist China, in the absence of further Chinese Communist aggression or a basic change in the situation, to seek, by means short of war, to reduce the relative power position of Communist China in Asia:

a. Primarily by developing the political, economic and military strength of non-Communist Asian countries.

b. At the same time by weakening or at least retarding the growth of Chinese Communist power in China, particularly by imposing, through economic restrictions, difficulties and delays upon Chinese Communist efforts to achieve rapid or large scale industrialization.

c. By impairing Sino-Soviet relations.

d. By attempting to convince the other members of the free world of the soundness of U. S. policies toward Communist China and of the advisability of their adopting similar policies, without, however, imposing such pressures as would be seriously divisive."

SECRET

7. The "Courses of Action" set forth in 152/3 should be amended by adding, at page 7, a new paragraph as follows:

Toward Communist China and North Korea

"39. In the absence of further Chinese Communist aggression and during the period prior to achieving settlements satisfactory to the United States in the areas around Communist China, the United States should:

Proposed by State,
Defense and FOA

a. Continue to embargo exports and imports and maintain present financial controls. Exceptional treatment may be accorded certain exports (e.g., propaganda, humanitarian, diplomatic) or imports (e.g., strategic materials) on a case-by-case basis after necessary inter-agency coordination.

b. With respect to the controls of other free world countries over trade with Communist China:

(1) Release Japan gradually, as appropriate, from its obligations under the U. S.-Japanese bilateral agreement* to maintain export

Proposed by Commerce

a. Reduce U. S. export controls to the CHINCOM levels (International List I, II, and III, plus the China Special List covering additional machine tools, iron and steel products and power equipment.)

b. With respect to the controls of other free world countries over trade with Communist China:

(1) Permit Japan forthwith to relax its export controls from the levels of the U.S.-Japanese bilateral agreement* to the CHINCOM levels.

Proposed by State,
Defense and FOA (Cont'd)

controls higher than the CHINCOM levels.

(2) Seek to have other nations continue existing export controls at the CHINCOM levels.

(3) Employ all feasible means to maintain the UN General Assembly Resolution* of May 18, 1951.

Proposed by Commerce (Cont'd)

(2) Resist any reduction in export controls below the CHINCOM levels, except for minor changes which are specifically justified.

c. Modify foreign assets controls to permit imports into the U. S. of Chinese-origin goods.

d. Determine what other changes are desirable in foreign assets controls which now bloc Chinese Communist assets in the U. S.

e. Modify shipping-bunkering and transaction controls in accordance with the foregoing courses of action.

* See text in Annex B.

STAFF STUDY

on

UNITED STATES AND FREE WORLD CONTROLS
OVER TRANSACTIONS WITH COMMUNIST CHINA

BACKGROUND

Free World Controls and Attitudes

1. The United States now maintains an embargo on all* exports to Communist China and North Korea and prohibits American vessels or aircraft from touching at Communist Chinese ports. In addition, the United States applies ancillary controls which are designed to prevent the carriage of any U. S. goods or strategic goods of any origin to Communist China. In order to prevent leakage or diversion of U. S. goods there is also a special screening of U. S. exports to Hong Kong and Macao, as major transshipment points for goods moving into Communist China.

2. The Treasury's Foreign Assets Control Regulations (a) block all assets in the United States belonging to Communist China and North Korea and their nationals, (b) prohibit financial transactions between persons subject to the jurisdiction of the United States and Communist China, North Korea, and their nationals, (c) prohibit imports of goods of Communist Chinese and North Korean origin, and (d) prohibit accounts in the United States, whether of foreign banks or other persons, from being utilized for dollar transactions which involve Communist China, North Korea, or their nationals. The principle objective of these controls is to deprive Communist China of foreign exchange and thus to limit, so far as we can, the ability of Communist China to acquire goods and services in countries other than the United States to carry on aggression or to aid a build-up for further aggression.

* Exception: G-PUB, open general license applies to certain printed matter, books, periodicals, exposed film; authorizes shipment to all destinations except North Korea - (Department of Commerce, Comprehensive Export Schedule Par. 371.20). However, there have been no recorded exports to China under this provision in 1952 and 1953.

3. The blocking of the assets in this country of persons in Communist China, however, is not based solely on reasons of economic defense, i.e., to prevent the funds from being used to the detriment of the United States. One of the other considerations involved is the fact that the blocking in many cases may prevent the Communists from obtaining by duress transfers from persons in China of their assets in the United States. U. S. banks are also protected by the blocking of assets in this country, because otherwise they might in some cases be subject to double liability as a result of suits for such assets by both Communist and Nationalist claimants.

4. Most of the free world nations in response to the United Nations Resolution of May 18, 1951* have agreed to embargo to Communist China and North Korea, arms, ammunition, implements of war and related strategic goods. The major industrial nations of the free world have applied controls through an informal organization located in Paris which includes a high level Consultative Group (CG) and two subordinate committees: the Coordinating Committee (COCOM), which specializes in controls over trade with the European Soviet bloc, and the China Committee (CHINCOM), which specializes in controls over trade between the participating countries and Communist China. These nations have agreed to embargo to Communist China the entire range of the goods agreed by COCOM for control to the Soviet bloc, including the embargo list (International List I), the quantitative control list (International List II) and the list of goods on which information is exchanged (International List III). CHINCOM, in recognition of Communist Chinese aggression, has agreed to a further embargo list (China Special List), which includes broad commodity categories considered strategic, such as iron and steel, machine tools, power equipment, etc. Japan, as a member of CHINCOM, applies those controls and, in addition, has agreed bilaterally with the U. S. to embargo all goods rated as strategic by the U. S. and an additional list of approximately 250 unrated specially selected items. Canada, also a CG/COCOM/CHINCOM member, maintains controls over and above the CHINCOM levels. Other free world countries maintain controls ranging from complete embargo (Cuba, Iceland, Yugoslavia) to no formal controls whatsoever. The latter category of countries, by and large, do not trade with Communist China or trade only in recognized non-strategic commodities.

5. The U. S. policy of complete embargo has not been made up solely on the basis of strategic considerations but rather has incorporated with these, moral and political considerations against trading with an enemy engaged in active hostilities

* Annex B

SECRET

against the U. S. and the other members of the United Nations. This U. S. policy has had wide public and Congressional support and, in the absence of a clear political settlement, would probably continue to have this support, except perhaps in certain U. S. foreign trade circles. Because of differing economic and political concepts and problems, the United States has been unable to achieve a situation in which controls equal to its own are applied by all other free world countries. The positions taken by these other governments, while not in large measure concurred in by the United States, have, nevertheless, been publicly acknowledged by this government, partly in recognition of the reality of some of the constituent problems and partly as a straight-forward application of the multilateral approach essential to a workable economic defense system.

6. Since the truce in Korea, free world Asian countries have shown new interest in expanding trade, particularly in their major export items. The depressed level of prices on commodities such as rubber and tin has brought a new wave of demands within producing countries for trade with Communist China. The UN Resolution seems to be a major element which restrains some nations* from trading in strategic items with the Chinese Communists. Some indications have recently appeared of a desire that the UN consider revoking the Resolution.

7. Japan in response to a unanimous Diet Resolution, July 31, 1953, seeks to relax its controls to the international level applied by its Western European competitors. The forces which apply within Japan are related (1) to her newly restored sovereignty and a public reaction against alleged U. S. domination and (2) to economic pressures increased by the realization that U. S. expenditures in Japan are of a temporary nature and her balance of payments position is critical. Although commercial circles in Japan over-estimate the possibilities of the economic improvement which Japan may expect to result from trade with Communist China, it may be expected that Japan will continue to seek economic aid from the U. S. citing restraints on Communist China trade as an important factor in her economic imbalance.

* Note: Except Ceylon, not a UN member, who bartered 50,000 tons of rubber for 270,000 tons of rice from Communist China in 1953 and has a similar contract for 1954.

SECRET

8. Despite the fact that Japan does presently maintain a higher level of controls on trade with Communist China, there is no basis for estimating that controls reduced to the international level would have any more than a marginal effect on her total trade, in the face of present Chinese Communist attitudes and capabilities. In 1953 Japanese exports to all destinations were \$1,300,000,000. Estimates of possible Japanese exports to Communist China in 1954 are:

	(in million U. S. dollars)
At current control level (4th quarter 1953 rate)	\$ 12-13
At level of China List controls	20-25
At level of COCOM controls	50-75
In the absence of strategic controls	75-100

9. Since the Korean truce, several Western European nations have informally suggested the desirability of reviewing the controls on China trade, as well as those over trade with the Soviet bloc, with a view toward eventual reduction of their scope. This action seems to be prompted by the European businessman's desire for greater markets for growing surpluses available for export, as well as by a desire to establish or maintain contacts in preparation for a later dropping of controls. Economic set-backs in the West would be accompanied by greater European pressures on controls, but presently the dominant factor appears to be the desire to preserve competitive opportunities, rather than the desire to expand markets. The pressure brought to bear in the British Parliament with respect to antibiotics (restrictions on which were recently removed by CHINCOM) seems to reflect the motivation of trade pressure, although the argumentation stressed the unique humanitarian reasons for decontrol.

10. American businessmen have refrained from overt pressures for trade with Communist China, although there has been some continued concern about the stricter controls exercised by the U. S. as compared with those exercised by competitive Western nations. This concern has been directed at the commercial inequities implicit in the situation in which goods embargoed by the U. S. may be shipped to Communist China by other nations. Discrimination in our markets has also resulted in pressures to establish more extensive import controls to reduce competition in cashmere wool manufactures and hog bristle brushes using materials of Communist Chinese origin. In the opinion of the Department of Commerce* an economic set-back in the U. S. may bring open and public pressures for resuming trade with Communist China, particularly if Western

* State, Defense and FOA do not concur.

competitors' trade continues to increase.⁷ As a result of recent revived public interest in the East-West trade issue, there has been some increase in speculation concerning the prospects of resumption of trade in non-strategic goods with the entire Soviet bloc, including Communist China.

Communist China Trade Relationships

11. Free world trade controls have accelerated a shift of Communist China's trade from the free world to the Soviet bloc, though this extensive trade reorientation undoubtedly would have developed without the impetus of these controls. Whereas in 1950 approximately 75 percent of Communist China's trade was with the free world, at the present time about 75 percent of its trade is with the Soviet bloc; and this apparently does not include the full value of the military items supplied by the Soviet Union. It is significant that this adjustment could be made in a relatively short period of time and that the total value of the trade is higher now than in 1950. Total value of Chinese imports in 1953 (recorded and unrecorded) is estimated at \$1,360 million compared with \$525 million in 1950. Exports in 1953 are estimated at \$1,394 million compared with \$575 million in 1950. The value of Communist China's foreign trade in recent years is shown in detail in the accompanying table on the following page. It is also significant that Communist China not only receives military supplies from the USSR but that a large percentage of imports from the Bloc consist of machinery, equipment and industrial raw materials. Exports to the Bloc are predominantly agricultural products and non-ferrous metals. Imports from the West of machinery and equipment have been small relative to imports in this category from the Bloc. In 1953 the highest percentage of imports from Western countries was in the chemicals, metal products, machinery, and industrial raw materials categories, while exports to the free world consisted largely of foodstuffs and raw materials.

12. The imposition of Western controls has restricted the free world contribution to the Chinese Communist economy and has somewhat retarded its rate of development. However it has not prevented the continued growth of the Chinese economy; nor does it appear to have seriously impaired the economic support of military operations in Korea.

SECRET

COMMUNIST CHINA'S FOREIGN TRADE

1937, 1938 and 1948 - 1953

(millions of U. S. dollars)

	<u>Soviet Bloc</u>			<u>Free World</u>		<u>GRAND TOTAL</u>
	<u>USSR</u>	<u>Satellites</u>	<u>Total</u>	<u>U. S.</u>	<u>Total</u>	
<u>IMPORTS</u>						
1937 ^{2/}	^{1/}	3	3	50 ^{2/}	277 ^{2/}	280 ^{2/}
1938 ^{2/}	2 ^{1/}	2	4	35 ^{2/}	260 ^{2/}	264 ^{2/}
1948	2	^{1/}	2	273 ^{3/}	437	439
1949	n.a.	n.a.	n.a.	83 ^{3/}	n.a.	n.a.
1950	103	7	110	45 ^{3/}	415	525
1951	615	145	760	^{4/}	530	1290
1952	557	173	730	0	320	1050
1953	765 ^{5/}	245 ^{5/}	1010 ^{5/}	0	350 ^{5/}	1360
<u>EXPORTS</u>						
1937 ^{2/}	1	^{1/}	1	104 ^{2/}	245 ^{2/}	246 ^{2/}
1938 ^{2/}	^{1/}	^{1/}	^{1/}	47 ^{2/}	160 ^{2/}	160 ^{2/}
1948	4	^{1/}	4	120	240	244
1949	n.a.	n.a.	n.a.	107	n.a.	n.a.
1950	153	22	175	146	400	575
1951	415	145	560	46 ^{6/}	315	875
1952	567	213	780	28 ^{6/}	270	1050
1953	775 ^{5/2/}	285 ^{5/}	1060 ^{5/}	n.a.	334 ^{5/}	1394

^{1/} Less than \$500,000

^{2/} Does not include Manchuria

^{3/} U. S. Aid included: 1948 - \$100 million; 1949 - \$45 m; 1950 - \$13 m.

^{4/} Medical books exported under general license - \$181

^{5/} Estimated

^{6/} Includes strategic materials licensed for import, merchandise not of Chinese origin but considered so statistically, e.g., Outer Mongolian, and Chinese merchandise located in friendly countries since before 1950 and purchases in those countries by Americans. In 1952 consisted chiefly of strategic materials.

^{2/} Estimated exports planned for 1953 total 775 million dollars. Analysis of available data on visible shipments suggests that visible exports to the Soviet Union in 1953 may be in the order of magnitude of \$630 million. It is possible that the planned value of exports includes some services or specie not reflected in the quantity of visible shipment from China to the Soviet Union.

SECRET

Possibilities for Expansion of Chinese Communist Trade

13. The size of Communist Chinese trade over the next 4 to 5 years will depend largely on a combination of (a) political factors; (b) internal economic policies; (c) ability to increase or maintain production of export commodities; and (d) the line of credit which may be advanced by the USSR. Communist China would probably also be affected by any substantial relaxation of international trade controls from present levels, in that a wider range of investment goods would be available in larger quantities. Under these conditions Communist China would probably increase imports from the West of certain essential commodities which are in short supply in the rest of the Bloc. However, even if international controls were relaxed, it is unlikely, without a change in the factors above, that the total value of Communist China's trade with both Bloc and non-Bloc nations would increase more than 25 percent over the 1953 volume, or about the same volume of foreign trade as in 1931 in terms of constant prices. Even with restricted internal consumption under Communist China's domestic policy, increased exports of the major food crops would hardly be possible on any large scale. On the other hand, it is estimated that soya bean and tung oil production can be substantially increased over the next 4 to 5 years despite increased domestic consumption of these commodities. In addition, part of the planned increased coal and iron ore production could be earmarked for export. Tin, tungsten, and antimony could also be produced in larger quantities for export if foreign markets were available. Despite these possibilities for increased exports, it is unlikely that Communist China could support more than a 25 percent increase in trade over the next 4 to 5 years. The current deficit position of Communist China with respect to the West would be an additional impediment to increased imports. It is impossible at this juncture to determine the extent to which this possible increase might be reflected in increased trade with the West. However, in view of Communist China's strong political and economic ties with the other Bloc nations, and the policy of economic autarchy generally adopted by the Soviet bloc nations, it is doubtful whether the free world would obtain the major share of such an increase in Communist China's trade unless opportunities to divide the free world or acquire strategic commodities were presented.

Chinese Communist State Control Over Foreign Trade

14. After the outbreak of the Korean War, the Chinese Communists adopted a rigid system of state control over foreign trade. State-operated companies now carry on about 90 percent of all foreign trade. While some private trade is still permitted, complete government control is assured through government licensing of all imports, exports and foreign exchange. Private traders are "encouraged" to handle commodities

SECRET

of minor importance which they trade largely through Hong Kong and Macao. The foreign trade control system screens trade: (a) to eliminate or reduce imports of luxuries and exports of "strategic" materials; (b) to utilize trade as an adjunct to government policy; (c) to facilitate favorable trading terms and other special advantages in trade. As late as December, 1953, Communist China was fixing more stringent terms for Western trading companies and continuing its restrictive pressure on foreign firms in China. Foreign concerns have been advised that with few exceptions the China National Import and Export Corporation (CNIEC) is the sole company with which they may do business. These developments are in line with orthodox practices within the Soviet bloc and there is every evidence that these controls will be intensified.

POSSIBLE COURSES OF ACTION

15. The courses of action to be adopted must appear appropriate from whichever of the two aspects--long or short--the pre-settlement period may be viewed, assuming, nevertheless, that the NSC would, as a matter of course, be reviewing such courses of action after some reasonable period of application or in the event of a major change in circumstances. Such courses of action must represent the continued exertion of economic pressure against Communist China toward satisfactory settlements. Yet they must also be sufficiently resilient or flexible to withstand the vicissitudes of possibly prolonged application. In connection with both these principles, they must be designed to enlist support and similar action by other free world countries to the extent possible without imposing seriously divisive pressures. (See NSC 166/1, paragraph 5-j)

16. Viewing the pre-settlement period from the short-term and longer-term aspects, consideration might be given to the following alternative courses of action.

a. With respect to U. S. controls:

(1) To continue the present embargo.

(2) To make token relaxations for humanitarian, propaganda or diplomatic reasons (this might not be viewed as an alternative course of action, but rather a more explicit recognition of existing exception potentialities).

SECRET

(*3) To reduce the coverage of U. S. embargo to those commodities included in the U. S. Security List, (including China List).

(*4) To reduce the U. S. embargo to the level agreed internationally in the Paris China Committee.

(*5) To reduce U. S. controls to the general level employed against the European Soviet bloc, except for such variations in listings as may be appropriate in the light of differences in Chinese Communist economic needs and capabilities.

b. With respect to the U. S. position toward other free-world country controls:

(1) To insist on maintaining the present levels.

(2) To acquiesce in limited reductions from the present levels of controls.

(3) To acquiesce in reducing controls to the general level employed against the European Soviet bloc, except for such variations in listings as may be appropriate in the light of differences in Chinese Communist economic needs and capabilities.

General Objective of U. S. Policy Toward Communist China

17. There are significant differences in current U. S. policy objectives towards Communist China and towards the European Soviet bloc. In NSC 152/3 (paragraph 19) U. S. policy is aimed at (a) imposing selective controls designed to prevent buildup of Soviet war potential; (b) obtaining net advantage for U. S. transactions with the Soviet bloc; (c) decreasing reliance of free world on the Bloc; (d) encouraging unity among free world countries and (e) encouraging discord between the U.S.S.R. and the satellites. In NSC 166/1 the U. S. objective towards Communist China is to reduce the power position of Communist China in Asia (paragraph 4) by such devices as continuing to exert political and economic pressures (paragraph 5-g) and employing all feasible means to impair Sino-Soviet relations (paragraph 5-i). These devices are in the context of a finding that the U. S. and its allies "can impose difficulties and delays upon Communist Chinese efforts to achieve industrialization and oblige the U.S.S.R. to continue to carry the burden of assisting Communist China." (paragraph 2-g). Continuation of political and economic pressure is also one of the courses of action which NSC 170/1, pertaining to Korea, has determined should be pursued in order to achieve a satisfactory settlement.

* Might be accompanied by some modification of foreign assets controls.

SECRET

18. The conclusion which may be drawn from these statements is: until there is a basic change in the Chinese situation the trade controls directed against Communist China should be broader and more extensive than those against the European Soviet bloc. This conclusion follows both from the fact that the courses of action relating to Communist China are aimed at achieving an immediate negotiating objective, and from the fact that the Communist Chinese trade controls are directed at impeding the industrialization of China, while the European Soviet bloc controls are directed at impeding only the development of war potential.

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SECRET

ALTERNATIVE COURSES OF ACTION

19. In the interest of simplicity, particularly in light of the considerations to be set forth below, the alternatives with respect to U. S. controls listed in paragraph 16 may be narrowed to the following two courses: (1) a continuation of the embargo either in its complete form as at present or with the variation of token exceptions for humanitarian, propaganda or diplomatic reasons, or (2) a substantive relaxation of U. S. embargo controls over non-strategic goods limited, however, to the level maintained by the Paris CHINCOM group.

20. A third possibility, reduction of U. S. controls to the level employed against the European Soviet Bloc, must be discarded because it clearly would not provide a useful approach toward either of the two policy objectives noted above. Controls at that level (even if adjusted to take account of the different demands of Communist China's war economy) would be aimed only at inhibiting Chinese Communist war potential and might thus substantially miss the target of impeding industrial development. Likewise, such controls would fall far short of the level necessary to effect economic and political pressure which might be conducive to negotiating satisfactory settlements in the areas around Communist China. This possible course, accordingly, would be inappropriate to the present circumstances.

21. Turning then to the alternative to our present course of action, namely relaxing U. S. embargo controls to the CHINCOM level, the principal arguments which may be made for and against this alternative course follow.

22. Arguments in favor of substantive relaxation of present U. S. controls:

a. Because non-strategic goods not covered by the CHINCOM export controls are moving without restraint from many other free world sources, no additional economic pressure on Communist China in respect of these commodities is achieved by a total U. S. embargo.

b. Relaxation of existing U. S. export controls to the CHINCOM control level:

(1) Would not make a significant contribution to the Communist Chinese industrial development or war potential because the CHINCOM controls cover the basic raw materials, capital goods and equipment needed for a major industrial effort.

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SECRET

(2) Would remove the discrimination against American businessmen interested in Far East trade. Such businessmen are now deprived of a market to which other free world traders have access, and many of them contend that controls maintained by the U. S. alone for the most part do not have any real effect on China.

(3) Would result in certain marginal economic benefits to the U. S., Canada, Japan and Hong Kong and indirectly help to reduce the need for future U. S. economic assistance./*

(4) Might discourage allied efforts prompted by commercial considerations to relax controls below the present CHINCOM levels, because our allies might expect that such relaxation of their controls would be followed by a similar relaxation of U. S. controls which might result in U. S. competition offsetting their anticipated gains./*

c. Relaxation of existing U. S. import controls, in addition to the relaxation of U. S. export controls, would permit re-entry into the U. S. market of diverse commodities, such as hog bristles and feathers, which have both military and civilian applications.

d. Relaxation of existing U. S. export and import controls:

(1) Would provide contacts which may in turn provide subsequent opportunities to take advantage of any future deterioration in the relationship between the USSR and Communist China./*

(2) Could be argued abroad as a sign of desirable flexibility in U. S. foreign policy and as a sign that the U. S. is willing to make a contribution toward lessening of international tensions. In this sense it might win additional support for other U. S. positions from countries such as India./*

e. Relaxation of some controls as an indication of willingness to resume trade might be an inducement in negotiations for political settlement./*

* Proposed by Commerce. State, Defense and FOA disagree.
** Proposed by Commerce. Considered to be of slight significance by State, Defense and FOA.

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23. Arguments in favor of maintaining present U. S. controls:

a. The U. S. embargo (export, import and financial controls) maintains direct economic pressure on Communist China. Although the force of this pressure obviously is not so great as it would be if all other free world countries applied completely parallel controls, absolute U. S. controls do have a direct economic impact:

(1) To the limited extent that other free world countries are unable to export to Communist China goods of the types or at the prices that might be supplied from the United States in the absence of our embargo, the higher level of U. S. export controls exerts a slight additional economic pressure upon Communist China.

(2) The U. S. import embargo deprives Communist China of the major world market for certain commodities, such as hog bristles, feathers and tung oil, thereby depriving it of needed foreign exchange.

(3) U. S. financial controls provide a protection against a revival of Chinese Communist blackmail or ransom-type levies upon persons or assets in the U. S. for support of the Chinese Communist regime and its operations.

b. The U. S. embargo (export, import and financial controls) also exerts against Communist China an indirect economic pressure far more important than the direct pressure discussed in a above. The embargo has been the major symbol, in the economic field, of U. S. world leadership against Chinese Communist aggression. Maintenance of the U. S. embargo at the present level deters other countries from moving to reduce free world controls over strategic trade with Communist China. Weakening of these controls, on the other hand, would sap the force of U. S. efforts to hold other countries to their existing control levels at the very time when maintenance of such levels begins to confront us with a difficult negotiating problem. U. S. relaxation would be widely interpreted abroad as induced solely by commercial interest in trade with the Chinese Communists, and such interpretation would encourage a progressive dismantling of the free nations' economic defense measures./*

* Commerce disagrees.

SECRET

SECRET

c. Maintenance of existing U. S. export, import and financial controls is vital to sustaining effective political pressure:

(1) On the non-Communist nations: Relaxation of U. S. controls, in advance of a political settlement or other Chinese Communist concession, would* be interpreted, particularly in the Far East, as a sign of weakness on the part of the U. S., and would* result in a significant aggrandizement of Chinese Communist prestige. This psychological impact could have a seriously adverse effect in Indochina, and might increase pro-Communist or neutralist sentiment generally in the Asian countries.

(2) On the Chinese Communists: Relaxation of U. S. controls at this juncture would* encourage the Chinese Communists to seek further concessions from the U. S., and thereby delay and make more difficult the negotiations for a political settlement in Korea.

d. Substantive relaxation in U. S. export, import and financial controls would create such public dissatisfaction in the U. S. that it would seriously impede this Government in continuing to pursue its international cooperative program for dealing with economic defense matters. The current embargo policy is supported domestically by widespread and strongly held public opinion as reflected recently, for example, in the Report of the Randall Commission. A relaxation now, in advance of progress toward political settlements with the Chinese Communists, would precipitate a major political controversy in the U. S. of the type which might impair U. S. leadership and participation in a sound international economic defense program.

* Commerce prefers might.

SECRET

ANNEX A

UNDERSTANDING BETWEEN JAPAN AND THE UNITED STATES
CONCERNING THE CONTROL OF EXPORTS TO COMMUNIST CHINA

1. The commodities enumerated in any International Control List shall be embargoed.
2. The commodities included in the United States Security Lists (including the Battle Act Lists) but not listed in the International Control Lists will continue to be embargoed.
3. The commodities included in the list attached to the existing Export Trade Control Order but not falling under the above-mentioned lists will be controlled in one of the following ways:
 - a. Until a more definitive determination is made, items which are found to be readily determinable as of strategic significance to Communist China will be embargoed by Japan to Communist China. Where proposed shipments of any such item to Communist China would in the opinion of the Japanese Government, involve their exchange for items of a character and quantity of such importance to the basic economy of Japan or the defense production programs in the free world, including Japan, as clearly to represent a highly favorable exchange, such transactions would be made the subject of bilateral discussions between Japan and the United States prior to any definitive action by the Japanese Government.
 - b. Until a more definitive determination is made, items which are suspected to be of strategic importance to Communist China or concerning which there is real uncertainty as to the strategic importance to Communist China will be licensed to Communist China only upon the review of individual transactions by the Japanese Government under strict quantitative control and where, in the opinion of the Japanese Government, the goods which are to be received in exchange clearly would contribute to the basic economy of Japan or the defense production programs in the free world, including Japan. The Japanese Government and the United States Government will exchange information periodically as to their shipment of goods to Communist China in this category.
 - c. Until a more definitive determination is made, items which are determined to be of limited if of any strategic importance to Communist China will be licensed for export to Communist China by Japan but within reasonable quantities so as to exclude their use by the Communist Chinese for conversion to direct or indirect military support uses. The Japanese Government and the United States Government will exchange information periodically as to their shipments of goods to Communist China in this category.

Initialed by: Ryuji Takeuchi
(Embassy of Japan,
Minister Plenipotentiary)

Harold F. Linder
(Assistant Secretary for Economic
Affairs, Department of State)

September 5, 1952

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ANNEX B

UNITED NATIONS GENERAL ASSEMBLY RESOLUTION

Additional Measures to be Employed to Meet the Aggression in Korea

Resolution adopted by the General Assembly at its 330th plenary meeting on
18 May 1951

The General Assembly, Noting the report of the Additional Measures Committee dated 14 May 1951, Recalling its resolution 498 (V) of 1 February 1951, Noting that:

a. The Additional Measures Committee established by that resolution has considered additional measures to be employed to meet the aggression in Korea,

b. The Additional Measures Committee has reported that a number of States have already taken measures designed to deny contributions to the military strength of the forces opposing the United Nations in Korea,

c. The Additional Measures Committee has also reported that certain economic measures designed further to deny such contributions would support and supplement the military action of the United Nations in Korea and would assist in putting an end to the aggression,

1. Recommends that every State:

a. Apply an embargo on the shipment to areas under the control of the Central People's Government of the People's Republic of China and of the North Korean authorities of arms, ammunition and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and items useful in the production of arms, ammunition and implements of war;

b. Determine which commodities exported from its territory fall within the embargo, and apply controls to give effect to the embargo;

c. Prevent by all means within its jurisdiction the circumvention of controls on shipments applied by other states pursuant to the present resolution;

d. Co-operate with other States in carrying out the purposes of this embargo;

e. Report to the Additional Measures Committee, within thirty days and thereafter at the request of the Committee, on the measures taken in accordance with the present resolution;

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2. Requests the Additional Measures Committee:

a. To report to the General Assembly, with recommendations as appropriate, on the general effectiveness of the embargo and the desirability of continuing, extending or relaxing it;

b. To continue its consideration of additional measures to be employed to meet the aggression in Korea, and to report thereon further to the General Assembly, it being understood that the Committee is authorized to defer its report if the Good Offices Committee reports satisfactory progress in its efforts;

3. Reaffirms that it continues to be the policy of the United Nations to bring about a cessation of hostilities in Korea, and the achievement of United Nations objectives in Korea by peaceful means, and requests the Good Offices Committee to continue its good offices.

SECRET

ANNEX C

February 9, 1954

PROGRESS REPORT ON REVISION BY EDAC/ACEP
OF THE LIST OF STRATEGIC ITEMS

1. The EDAC and ACEP Committee structures are engaged in a comprehensive review of the Security Lists, in accordance with the provisions of NSC 152/3. The relevant portions of NSC 152/3 which govern this review are:

a. Paragraph 19-a. To control selectively exports of commodities and supply of services from the free world which contribute significantly to the war potential of the Soviet bloc.

b. Paragraph 25. Tighten the criteria for the inclusion of commodities on our lists to provide for the selection of commodities which contribute significantly to Soviet war potential.

c. Paragraph 30. Give greater weight in determining U. S. actions to the impact of the control system on the economic, political and financial situation of our allies and to their views and intentions.

2. The first step in the revision process was the essential one of revising the criteria in accordance with paragraph 25 to provide a basis for objective determinations of which items are strategic. Newly formulated criteria were approved in a joint meeting of the ACEP and EDAC in November 1953. These new criteria are set forth as "Attributes and Standards" and retain the concepts that strategic materials from the point of view of this program are (1) materials and equipment used principally for military production, (2) commodities incorporating highly advanced technology, and (3) commodities of war potential significance which are critically deficient in the Soviet bloc. In connection with rating action, the criteria provide that appropriate consideration be given to the possibilities of effective control, as well as to the political and economic impact on friendly countries of controls over particular commodities. Thus, the new attributes and standards provide more specific guidance for making listing determinations.

3. The second major step in the revision process was the establishment, as of January 1, 1954, by ACEP and EDAC of a Joint Operating Committee with responsibility for the review of the lists and the handling of all of the commodity problems arising within the total economic defense program, whether they relate to the Battle Act or to the Export Control Act, or to AEC and Munitions control as appropriate. This Joint Operating Committee should make it possible better to coordinate U. S. commodity controls with those which we seek to have other nations adopt.

4. The third step undertaken in the review process is the actual revision of the existing security lists. This involves the establishment of a new format for the lists, the preparation of basic fact sheets on each commodity, a review of current intelligence information with respect to the

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SECRET

Soviet bloc position, an analysis of the data in terms of the "Attributes and Standards", and finally a determination with respect to U. S. action on the item and the action which we would like to see other nations adopt. This review was begun in mid-December.

5. An endeavor has been made to accelerate this review as a result of the indications that the U. K. Government will probably propose a drastic revision and curtailment of the existing control lists. All agencies are cooperating in the fullest measure in speeding the review process. Inevitably, however, the process will be time-consuming if the task is to be effectively carried out.

6. To assist in determining the order of review of the international listings, all member agencies of the Joint Operating Committee (except CIA) and the U. S. Delegation in Paris were asked to group the items in three groups: (a) those with the strongest justification for retention, (b) fair justification, and (c) weakest justification. All responded except the Department of Defense, which advised that it had been requested by NSC to make a reappraisal of the military effect of a relaxation of controls on trade with the Soviet bloc in strategic materials from free world sources. This reappraisal was sent to the Council.* An analysis of the views of the agencies reporting indicated substantial uniformity. The groupings show: strongest justification--300; fair--139; weak--13.

7. With respect to items which have been fully reviewed (see attached table), as of February 26 the Joint Operating Committee has acted on 55 $\frac{1}{2}$ ** items, recommended retention of 27 items, deletion in whole or in part of 27 items, and addition or uprating of 1 $\frac{1}{2}$ items. An additional 36 items have been reviewed by the technical group which is doing the preliminary work of screening the items, and the documentation for JOC consideration of these additional items is in preparation. This group is proceeding at a rate of approximately 20 item listings per week.

8. As shown on the attached table, there are 453 separate listings on the various COCOM agreed International Control Lists. A reasonable estimate of the date for the completion of the review of the International Lists would be July 1954. However, we should be in a position to begin international discussions at an earlier date, perhaps by mid-March, when a sufficient number of items have been reviewed to indicate the probable pattern of the end result.

* Memo for NSC from Acting Executive Secretary, "Reappraisal of the Military Effect of a Relaxation of Controls on Trade with the Soviet Bloc in Strategic Materials from Free World Sources", dated January 22, 1954.

** The symbol $\frac{1}{2}$ denotes splitting of previous item listing.

SECRET

9. Prior to undertaking this review, the U. S. I-C List was abolished in November. This resulted in the removal from the U. S. security list of 186 item listings, leaving 16 for further review. However, there remain 138 items which are unilaterally controlled by the U. S. Although in the review process the JOC is concentrating on international control list items, there is an inter-relationship among commodities which appear on other U. S. lists and some of these are being handled at the same time when appropriate.

10. Since international controls as well as U. S. controls are involved, the judgments reached through the process described above must be tested in negotiations with other countries. Additional changes may be necessary after we ascertain "the views and intentions" of other friendly countries. However, it should be noted that if the United Kingdom maintains its tentatively expressed views, wide and serious differences will remain between the two governments after the existing lists are thoroughly screened down in accordance with present U. S. policy. A formal statement of the British position is expected within a few weeks, and this may require further consideration by the Planning Board and NSC.

STATUS OF SECURITY LISTING REVIEW BY THE JOINT OPERATING COMMITTEE OF EDAC/ACEP
(as of February 26, 1954)

	<u>Total</u> <u>All Items</u>	<u>Number</u> <u>Considered</u>	<u>Retained</u>	<u>Downrated</u>	<u>Upated</u>
<u>International Lists</u>	<u>453</u>	<u>41½</u>	<u>25</u>	<u>16</u>	<u>½</u>
I/L I (Embargo)	265	6	6	---	-
I/L II (Quantitative)	91	19½	14½	5	-
I/L III (Exchange of Inf.)	97	16	4½	11	½
Other US Listing (Not on I/L)	<u>138</u>	<u>14</u>	<u>2</u>	<u>11</u>	<u>1</u>
U. S. Embargo	26	--	--	--	-
U. S. Quantitative	112	14	2	11	1

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I/L and Other U. S. Listings					
Grand Total	591	55½	27	27	1½

NOTE: The symbol ½ denotes splitting of previous item listing.